



BETWEEN THE TIDES

THE 2012 PENSION LAWYERS ASSOCIATION CONFERENCE

Umbrella funds and the development of legal principles specific to them

Kobus Hanekom

Simeka Consultants & Actuaries

Agenda:

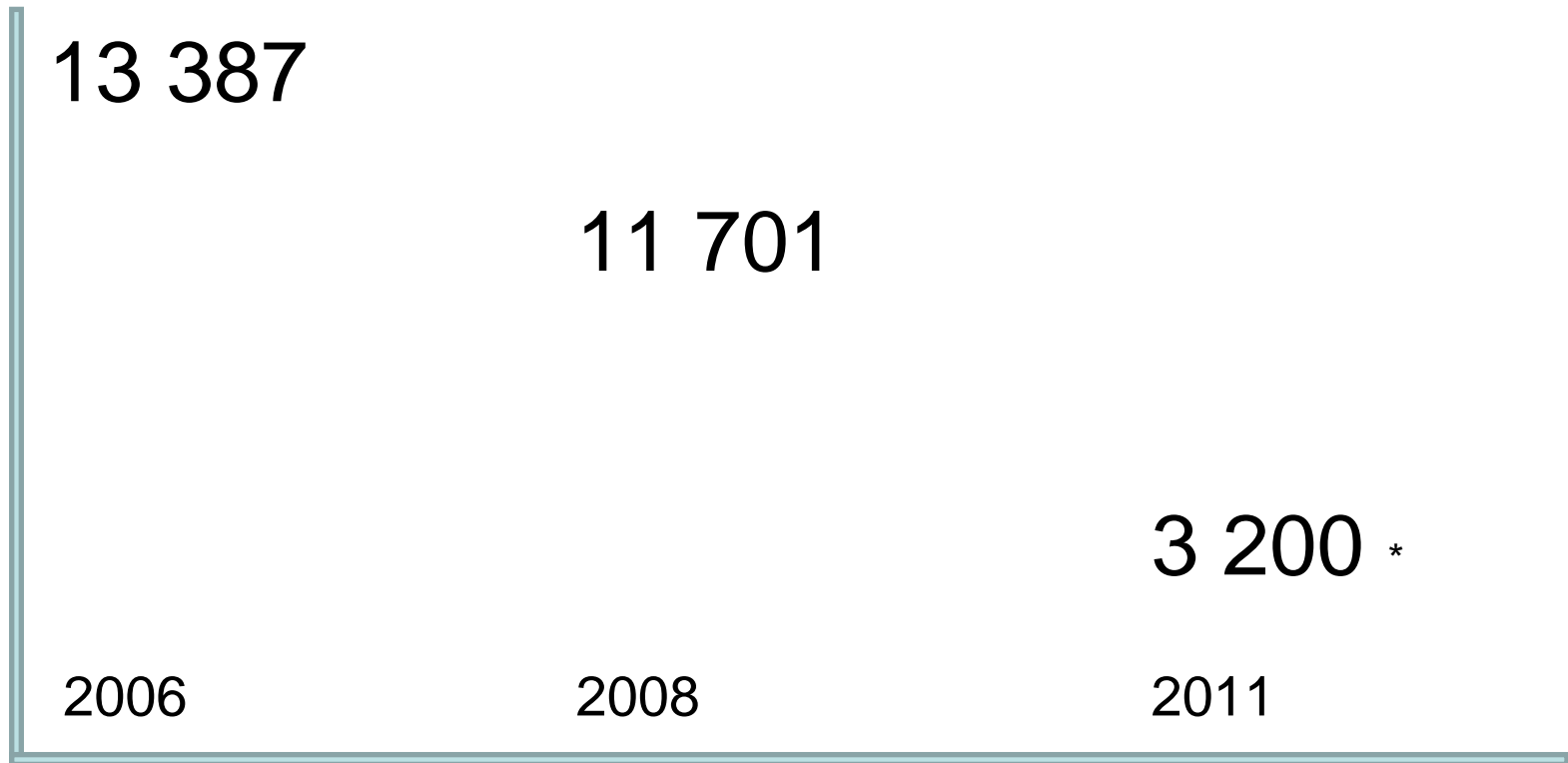
Umbrella funds are widely regarded as more cost effective, convenient, efficient and secure. We will –

- consider the role of umbrella funds in the context of retirement reform
- explain the shift in the “criteria for success”
- investigate and see to what extent the claims are true
- explore the remaining aspects that require regulation.



The growth of umbrella funds

Standalone Funds – Market Contraction



Registrar of pension Funds Annual Report 2008

* 2011 budget

Growth in Umbrella Participation v New Standalone Funds

	2008	2007	2006
New Standalone funds	57	47	96
New participating employers	6 622	3 543	4 651
Liquidations and terminations of funds	774	421	409

Registrar of Pension Funds Annual Report 2008



Umbrella funds in the context of Retirement Reform

100 funds

will be left in the next 3 to 4 years ...

compulsory

“opt out” allowed?

existing savings

no one will be forced to transfer savings to
the NSSF



compulsory contributions

first R150 000: 10% – DB pension, 4% – risk benefits

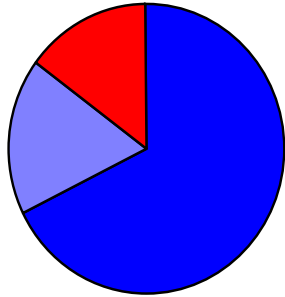
balance

voluntary: accredited DC scheme

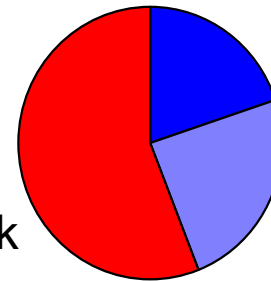


Implications of the NSSF

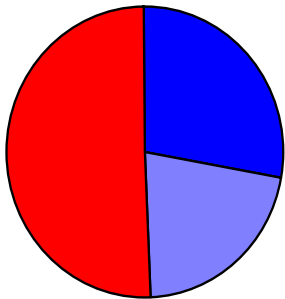
Members



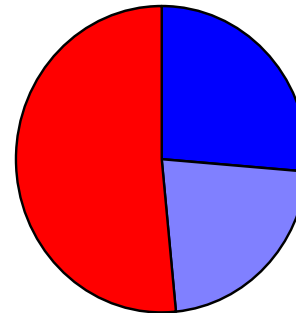
Salaries



Contributions



Liabilities



Worst case scenario

no opt out

standalone funds

- 80% to 90% smaller : membership
- 50 to 60% less : contribution flow

For many employers joining an umbrella will be the only viable option.



Best case scenario

opt out on acceptable terms

standalone funds will survive if -

- Benefit structure can deliver on a target pension
- The cost effectiveness (efficiency) of the benefit structure
- Level of governance and compliance

For many employers joining an umbrella will be attractive option



Either way ...

Umbrella funds will
dominate
the private retirement industry





The shift in the “criteria for success”

Although in many respects our retirement fund system is financially sound and well regulated, too many people reach retirement age without adequate accumulated savings.

2004 project team

“For too many people the build-up of savings is disrupted ...

... or the costs associated with retirement fund provisioning are unacceptably high”

2004 project team

begin

with the end in mind

focus on

the outcome for the SA consumer

the pension payable during retirement

not only

fund governance in compliance with the rules

member surveys

- apathetic
- lack understanding
- suffer from inertia
- short term thinking
- their decisions often destroy value ...

behavioural finance

accept

member apathy as a reality of life

adapt

your communication structure &
your benefit structure

architecture

of choice

“speak to your financial advisor”

- an abdication of responsibility by trustees?
- it does not serve the South African consumer

odds

stacked heavily in the favour of members

target replacement ratio...

35

years

75%

of final salary



Are umbrella funds more cost effective?

What are the costs?

fund management fee

- administration fee
- minimum fees / annual fees / transaction fees
- asset based administration fees

consulting fees

operational costs (contingency reserve fee)

asset management fees

Large Standalone v Umbrella funds

Summary	A		B		C		D					Fund	
Admin Fee	R	469 716.00	R	601 020.00	R	689 368.42	R					R	853 693.61
Consulting Fee	R	669 000.00	R	669 000.00	R	669 000.00	R					R	172 640.16
Other Expenses	R	-	R	94 380.00	R	10 526.32	R					R	268 477.80
Actuarial Fee	R	-	R	-	R	-	R					R	198 533.40
VAT	R	159 420.24	R	191 016.00	R	191 645.26	R					R	209 068.30
TOTAL	R	1 298 136.24	R	1 555 416.00	R	1 580 540.00	R					R	1 702 413.27
Expressed as pm													
om	R	91.68	R	109.85	R	110.21	R					R	120.23
Expressed as a %													
of Contributions		0.39%		0.47%		0.47%							0.51%
Asset based													
administration fee			Less than	0.55%									
		0.00%	R750 000			0.00%					0.00%		0.00%
			R750 000 to	0.30%									
			R1 500 000										
			> R1.5m	0.00%									
Contingency													
reserve levy		0.01%		0.03%		0.02%					(included in admin 4.5%)		0.25%
Expressed as pm													
om	R	1.50	R	6.43	R	4.50						R	58.42
Estimated Asset													
Management Fees	ABC	DEF	MNO		GHI	JKL	PQR	STU	VWX	YZA	BCD	EFG	
based on asset													
value of													
R 700m	0.66%	0.66%	1.50%		0.69%	0.54%	0.66%	0.64%	0.60%	0.52%	0.49%	1.17%	


Calculation of fees payable by members

			Costs as % of Pensionable Salary						
Salary p.m.	Fund credit	Fund Management Fee	Contingency reserve	Asset based administration fees	Asset management fees	Total monthly charge	% of Salary	Fund Management Fee	
2 500	50 000	R 12.86	R 58.42	R -	R 48.49	R 119.77	4.79%	R 120.23	
5 000	75 000	R 25.72	R 58.42	R -	R 72.74	R 156.88	3.14%	R 120.23	
7 500	100 000	R 38.59	R 58.42	R -	R 96.98	R 193.99	2.59%	R 120.23	
10 000	150 000	R 51.45	R 58.42	R -	R 145.47	R 255.34	2.55%	R 120.23	
12 500	200 000	R 64.31	R 58.42	R -	R 193.96	R 316.69	2.53%	R 120.23	
15 000	500 000	R 77.17	R 58.42	R -	R 484.91	R 620.50	4.14%	R 120.23	
17 500	750 000	R 90.04	R 58.42	R -	R 727.36	R 875.81	5.00%	R 120.23	
20 000	1 000 000	R 102.90	R 58.42	R -	R 969.81	R 1 131.13	5.66%	R 120.23	
25 000	1 250 000	R 128.62	R 58.42	R -	R 1 212.26	R 1 399.31	5.60%	R 120.23	
30 000	1 500 000	R 154.35	R 58.42	R -	R 1 454.72	R 1 667.48	5.56%	R 120.23	
40 000	2 000 000	R 205.80	R 58.42	R -	R 1 939.62	R 2 203.84	5.51%	R 120.23	
50 000	2 500 000	R 257.25	R 58.42	R -	R 2 424.53	R 2 740.19	5.48%	R 120.23	
75 000	3 750 000	R 385.87	R 58.42	R -	R 3 636.79	R 4 081.08	5.44%	R 120.23	
100 000	5 000 000	R 514.50	R 58.42	R -	R 4 849.05	R 5 421.97	5.42%	R 120.23	

Fund management costs levied as % of salary

		Fund	A	B	C	D	A	B	C	D
Salary p.m.	Fund credit	% of Salary	% of Salary	% of Salary	% of Salary	% of Salary	Difference to Fund	Difference to Fund	Difference to Fund	Difference to Fund
2 500	50 000	4.99%	1.55%	4.13%	1.80%	1.44%	0.31	0.83	0.36	0.29
5 000	75 000	3.23%	1.24%	3.15%	1.42%	1.17%	0.38	0.97	0.44	0.36
7 500	100 000	2.65%	1.14%	2.82%	1.30%	1.07%	0.43	1.07	0.49	0.41
10 000	150 000	2.60%	1.23%	3.08%	1.38%	1.17%	0.47	1.19	0.53	0.45
12 500	200 000	2.57%	1.28%	3.24%	1.43%	1.22%	0.50	1.26	0.55	0.48
15 000	500 000	4.17%	2.23%	6.18%	2.41%	2.17%	0.54	1.48	0.58	0.52
17 500	750 000	5.03%	2.75%	7.79%	2.96%	2.69%	0.55	1.55	0.59	0.53
20 000	1 000 000	5.68%	3.14%	8.74%	3.36%	3.08%	0.55	1.54	0.59	0.54
25 000	1 250 000	5.61%	3.14%	8.58%	3.36%	3.08%	0.56	1.53	0.60	0.55
30 000	1 500 000	5.57%	3.14%	8.47%	3.36%	3.08%	0.56	1.52	0.60	0.55
40 000	2 000 000	5.52%	3.14%	8.02%	3.35%	3.08%	0.57	1.45	0.61	0.56
50 000	2 500 000	5.49%	3.14%	7.75%	3.35%	3.08%	0.57	1.41	0.61	0.56
75 000	3 750 000	5.44%	3.14%	7.39%	3.35%	3.08%	0.58	1.36	0.61	0.57
100 000	5 000 000	5.42%	3.14%	7.22%	3.35%	3.08%	0.58	1.33	0.62	0.57

Net Replacement Ratio Report

Fund Statistics and Mean Net Replacement Ratio						
Age Band	Total Members	Male	Female	Replacement ratio	+2% Sensitivity	-2% Sensitivity
<= 25	19	13	6	78.8%	119.8%	53.4%
26 - 30	116	81	35	70.1%	102.4%	49.1%
31 - 35	195	136	59	60.4%	84.2%	44.1%
36 - 40	175	140	35	52.2%	69.6%	39.7%
41 - 45	198	150	48	46.1%	58.4%	36.7%
46 - 50	206	131	75	37.9%	45.2%	31.8%
51 - 55	155	105	50	33.6%	37.8%	30.0%
56 - 60	114	85	29	30.3%	32.1%	28.6%
>= 60	2	2	0	43.2%	44.1%	42.3%
Total / Average	 ON LAWYERS ASSOCIATION 1180	843	337	47.7%	62.1%	37.3%

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Comparison with Umbrella Fund

Fund Statistics and Mean Net Replacement Ratio

Age Band	Company Pension and Provident Plans	Umbrella 1	Umbrella 2	Umbrella 3	Umbrella 4
<= 25	78.8%	103.1%	110.6%	77.6%	100.3%
26 - 30	70.1%	89.0%	95.0%	68.4%	86.8%
31 - 35	60.4%	73.5%	77.8%	58.0%	71.9%
36 - 40	52.2%	62.0%	65.3%	50.1%	60.8%
41 - 45	46.1%	52.1%	54.5%	43.4%	51.2%
46 - 50	37.9%	41.2%	42.8%	35.7%	40.7%
51 - 55	33.6%	34.8%	36.0%	31.7%	34.5%
56 - 60	30.3%	30.2%	30.9%	29.1%	30.1%
>= 60	43.2%	42.3%	42.5%	41.9%	42.3%
Total/Ave	47.7%	55.2%	58.1%	45.6%	54.3%



Remaining aspects that needs to
be regulated

We want to know that ...

fund governance

is in place,

safe and protected

clients - also against the sponsor.

The sponsor must however have sufficient control to own the offering and take full responsibility for it.



We want to know that ...

subsidise

our clients should not have to subsidise the neglect of another employer.

employer duties

must be clear and the accountable person identified.

joint forums

person who has to establish it and/or take full responsibility should be identified.



commercial umbrellas

regulated like listed - not private companies.

balance of power

King III requirements should apply - board

- a majority of non-executive trustees, and
- a majority of those should be independent trustees.

Will accommodate a 50:50 representation of sponsor-appointed and (independent) member-elected trustees.



sponsor

recognised in law as a key stakeholder
rights congruent with its position.



Employer v Joint Forum – important duties

employer

update member data every month
make payment of contributions

joint forum (local board)

(50 : 50 employer-appointed and member-elected representatives)

- oversee fund and service providers
- represent member interests and
- communicate key issues with members



Non payment of contributions -

FSB

trustees should take action against the employer -

- lay a charge of theft against the employer
- complain to the PFA and the Dept of labour
- sue the directors or senior management of the employer in their personal capacities (reckless trading?).



Non payment of contributions -

action

best for the Joint Forum to take the action

duty

to monitor the fund and service providers.

not established

operational efficiency compromised
risk of loss.





In conclusion

-
- Umbrella funds are generally speaking well behaved
 - The legislative framework can however be improved
 - Benefit consultant (the industry) have an enormous job to redirect attention and design to what really matters ...

A plan to deliver a dignified retirement for each member

efficient
cost effective
secure

Thank you



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